

# Liberal Democrats

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## Vince Cable's speech to Liberal Democrat Autumn Conference

Speaking at Liberal Democrat Autumn Conference today, **Liberal Democrat Secretary of State for Business, Innovation and Skills, Vince Cable** will say:

### *Check against delivery*

If you attend conference regularly you may remember five years ago. We were interrupted by news of the collapse of a small bank in Newcastle. That was the beginning of a terrible economic storm which rages to this day. It has left behind broken banks, lower living standards, ballooning budget deficits, job insecurity and a sense of permanent crisis.

In a time of crisis what the country needs is national government. That means working with political opponents in the national interest. Indeed, one of our central aims as Liberal Democrats is to show that coalitions work. And Nick Clegg's major contribution as leader has been to do just that. At a time of crisis, Coalition government was and is still the only way forward – and it required considerable political courage from Nick to make it happen.

For myself, I take pride in the fact that my department in government has two Lib Dem ministers – and I'm absolutely delighted to have Jo Swinson as a minister – and five very able Conservatives, led by David Willetts, working well together as a team.

Many of the decisions we face – on banks, industrial strategy, climate change - go way beyond the limitations of one party or one parliament. That's why I also make sure that I have good communications with politicians across the political spectrum.

But I do confess that I occasionally lapse into party political tribal thinking. What has sustained me, in my darkest moments, has been the Daily Telegraph poll showing I was the Cabinet Minister who Conservative activists most wanted to evict from Government. Sadly I recently discovered that I had lost my badge of honour to not one but two conservative colleagues.

But more seriously we will ultimately be judged by the Government's handling of the economic crisis.

I am at heart a realist, and deep down, an optimist. We can't recreate the fool's paradise of the pre-crisis era; but we are perfectly capable of sustainable growth in this country.

To that end, I believe we need an industrial strategy – a positive and ambitious vision, built around long-term investment in innovation, skills and science. We are so good at so many things in this country – but for too long the mirage of growth based on property speculation and financial gambling has hidden the harder virtues of making things productively. We must

get behind successful British-based firms in vehicles, aerospace, life sciences and creative industries and our world-class scientists and universities.

I have been working at the heart of Government to make this happen. Despite spending cuts, we have increased apprenticeships by over 60%. We launched German-style innovation centres so that British industry can access the newest technologies in advanced manufacturing, bioscience, sustainable energy, and digital. We are bringing lost supply chains back to Britain. The Green Investment Bank is now up and running, financing the green industries of the future.

We have had some real successes. Working with the American chiefs of General Motors and British trades unions to save thousands of Vauxhall jobs in the North West. With the Indian owners of Jaguar Land Rover to create in the west Midlands a global hub for design and vehicle engineering. Boosting research to keep Britain as the second aerospace economy in the world. Working with Siemens and others to develop offshore renewable engineering in Hull: a key low carbon industry.

There are some common threads: understanding that markets fail and that governments can and should sensibly intervene and support enterprise; and a will to fight the British curse of short-termism – both in the corporate world and in government.

## **Banks**

Industrial strategy can only work if finance supports business investment and growth. Currently it doesn't. Our leading banks are often anti-business especially anti small business. They threw traditional relationship banking over the side and sold useless insurance and dodgy derivatives instead.

Public anger at the greed and stupidity in this industry will continue for a long time. But I am looking forward to and I want to work with the new generation of sensible bankers to support the real economy.

We must now implement the 'pioneering' coalition policy of splitting the investment bank casinos from mainstream personal and business banking, as in the Vickers report. Without Liberal Democrats in government you can be absolutely sure this would not have happened.

There is still so much to do. Four years ago only a massive taxpayer bailout stopped RBS from dragging the whole economy over a cliff. Two years ago there was talk of an early sell off. That is history. It has been a drifting, rudderless hulk but is now getting more shipshape. And it needs direction from us – we own it - to get up steam, and to lend more to support British business.

This is no time for the state to be stepping back. We need a new British business bank with a clean balance sheet and an ability to expand lending rapidly to the manufacturers, exporters and high growth companies that power our economy.

Today I can announce we will have one. I am working with the Chancellor to develop a new institution that will combine a billion pounds of new government capital with a larger private sector contribution. This will apply leverage through guarantees to support up to ten billion

pounds of finance to small and mid-sized business – a significant portion of all the lending currently available.

Industrial strategy; reforming the banks; these are parts of a bigger project: creating a culture of responsible capitalism. I launched a debate on this issue at conference two years ago, you may remember when I echoed Adam Smith saying that ‘Capitalism takes no prisoners and kills competition when it can’; this led to loud moans about Communists in government. Now everyone has seen the scandals of market rigging, mis-selling and phone hacking; the abuse of monopoly power; and the outrageous rewards for failure.

Despite all of that we must work within a market based, private enterprise system. Business will drive our recovery. And there are many outstanding and responsible British companies.

In two years we have done a lot to support them. Our legislation to introduce binding shareholder votes on executive pay is progressing through Parliament. We are scrapping unnecessary red tape on small business while strengthening regulation where it is necessary – as on the environment. We are getting more women into top business positions, on boards. And we have seen off the ‘head bangers’ who want a hire and fire culture and seem to find sacking people an aphrodisiac: totally irrelevant in a country with flexible labour markets which have created over a million private sector jobs in the last two years. Instead, we have concentrated on practical tribunal reform and supported progressive firms who want worker participation and share ownership.

Furthermore, we want the costs of our current crisis to be fairly shared. ‘We are all in it together’ is a good slogan. Forget the Tory messengers; let’s apply the message. Cracking down hard, not just on criminal tax evasion but on abusive tax avoidance. Working with our allies to close down tax havens. No one keeps their cash in tax havens for the quality of investment advice; these are sunny places for shady people

There could be no better time to promote our Party’s commitment to progressive taxation. We have lifted tax thresholds: taking 2m, lower paid workers, mainly women, out of income tax and cutting taxes for 20m on average pay. But the very wealthy have so far got off lightly.

I know some of you hanker after a Hollande-style assault on top incomes. But we know that very high marginal rates of income tax are counter-productive. If I were advising Monsieur Hollande, I would recommend a ‘chateau tax’ – for those of us who never even managed a dumbed-down GCSE in French, that means a ‘mansion tax’. Core Lib Dem policy. A first step to the proper taxation of wealth and land. It horrifies the Tory backwoodsmen but it is popular and right. The super-rich can’t move their chateaux to Monaco or Switzerland so let’s get on with it and tax them here.

Now you might say: “That’s fine. But how do we get out of the present mess?”

We are in a dangerous phase of the crisis as consumer spending is squeezed by falling real incomes and debt and exports to the European Union are hit by the Eurozone crisis.

Our critics on the left say – “cut more slowly”. The government has already extended the period to eliminate the structural deficit from four to six years. Yet Ed Balls says: “workers of the world unite. We need a Plan B. We should not cut the deficit in six years but seven”.

Our critics on the right say that all we need is supply side reform to liberate the animal spirits of business. Of course we need and value entrepreneurs. But no amount of push from supply side reform can possibly succeed without the pull of demand.

Other critics say, “why not borrow more when interest rates are so low?”. Actually that is what we are doing: absorbing the slowdown and restoring some of the savage cuts in capital investment made in the last year of Labour government. So borrowing has been allowed to rise - this is entirely sensible in an economic downturn. I have great personal sympathy for the Chancellor who is being attacked for borrowing too much, and borrowing too little, at the same time.

Actually it is not a matter of Plan A versus Plan B or Plan C or even Plan V. Plan A+ is OK by me or plan A++ if you prefer. When we came into government we had to balance competing risks: of aggravating the economic downturn through excessive cuts versus the risk of losing the confidence of lenders. I believe we struck the right balance and adopted a deficit reduction plan. I make no apology for my continued support for that fiscal discipline.

But right now we are fighting recession. The need is for a demand stimulus. And that does not just mean pumping more money into the banks. That great Liberal Keynes had exactly the right analysis of the problem we now have – not enough spending power in the economy. And not only him – but also the International Monetary Fund, who no one could accuse of financial irresponsibility and the coalition understands this very well.

One big step will be carrying out our commitment this month to get more houses built. The numbers of houses completed are currently the lowest in peacetime since the 1920s. Millions of families are in housing need. There is distress in the construction industry. The private market will only heal slowly. Because mortgages are scarce. What we need is an aggressive programme of house building by housing associations and local councils, with government providing guarantees so they can build, in large numbers, now. We need an extra 100,000 houses a year to meet demand. That would create half a million new jobs.

The central point is that the country must not get stuck on a downward escalator where slow or no growth means bigger deficits leading to more cuts and even slower growth. That is the way to economic disaster and political oblivion. We will not let that happen.

There is still time to turn the economy around. Last year I talked about the economic equivalent of war. We mean to win it.

I have talked about our national imperatives. But this is a party conference. I know many of you worry that while we do what is right for the country, the party is suffering for it.

But think about our opponents. The Labour Party currently has reasonable poll ratings. We know from their union funded campaigns against us in Northern cities that Labour can still be a ruthless political machine. But it used to be a lot more than that. It once had a soul and new ideas. Then we had 13 years of rootless New Labour. A hard earned reputation for economic competence disappeared under the rubble of collapsing banks. Their party's long standing commitment to individual freedoms was buried in a graveyard of civil liberties. Principled foreign policy was laid to rest in Iraq. They have scarcely begun the long march back from there.

Most of our MPs will face Conservatives at the next General Election. They face the enticing prospect of a Tory split.

We are not like that. We have unity in adversity. Liberal Democrats are not in hock to fat cats or union barons and media bosses. Nor will we be bullied by them. We remain willing to work with other parties in the wider national interest. We fight for liberal and social democratic principles just as strongly inside government as out.

After over two years in government we are battle hardened but certainly not war weary. None of us knows exactly how it will end. But we all know we must fight the next General Election as a totally independent, national, credible challenger for power.

I don't believe tactually that the British people will want to entrust their future to any one party next time. If Britain wants sustainable growth, competence with compassion, fairness with freedom and more equality not ever greater division: then that government must have Liberal Democrats at its heart.

**ENDS**

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